



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
MARTIN COUNTY  
SHERIFF'S SETTLEMENT - 1998 TAXES AND  
SHERIFF'S SETTLEMENT - 1998 UNMINED COAL TAXES**

**September 21, 1999**

**EDWARD B. HATCHETT, JR.  
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Edward B. Hatchett, Jr.  
Auditor of Public Accounts

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet  
Mike Haydon, Secretary, Revenue Cabinet  
Honorable Lon E. Lafferty, Martin County Judge/Executive  
Honorable Darriel Young, Martin County Sheriff  
Members of the Martin County Fiscal Court

The enclosed report prepared by Stephens & Lawson, P.S.C., Certified Public Accountants, presents the Martin County Sheriff's Settlement - 1998 Taxes and 1998 Unmined Coal Taxes.

We engaged Stephens & Lawson, P.S.C., to perform the financial audit of this statement. We worked closely with the firm during our report review process; the resulting audit comports with our reporting format. As part of the audit, Stephens & Lawson, P.S.C., evaluated the Martin County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Enclosure



**EXECUTIVE SUMMARY**  
**MARTIN COUNTY**  
**DARRIEL YOUNG, SHERIFF**  
**SHERIFF'S SETTLEMENT - 1998 TAXES**

**Financial Condition of the Entity:**

Tax and interest collections were distributed appropriately with only minor adjustments necessary.

**Comment and Recommendation:**

The Sheriff Should Have Required Depository Institutions To Pledge Additional Securities of \$1,246,002 As Collateral And Entered Into A Written Agreement To Protect Deposits

The Sheriff Should Remit To The School District The interest Earned On The 1998 Unmined Coal Taxes

The County Should Obtain A County Revenue Bond To Adequately Protect The County From Potential Loss



**AUDIT EXAMINATION OF THE  
MARTIN COUNTY  
SHERIFF'S SETTLEMENT - 1998 TAXES,  
SHERIFF'S SETTLEMENT - 1998 UNMINED COAL TAXES**

**September 21, 1999**

**Stephens & Lawson  
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To the People of Kentucky

Honorable Paul E. Patton, Governor

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Honorable Darriel Young, Martin County Sheriff

Members of the Martin County Fiscal Court

#### Independent Auditors' Report

We have audited the Martin County Sheriff's Settlement - 1998 Taxes as of September 21, 1999, and the Sheriff's Settlement - 1998 Unmined Coal Taxes as of September 21, 1999. These tax settlements are the responsibility of the Martin County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statements referred to above presents fairly, in all material respects, the Martin County Sheriff's taxes charged, credited, and paid as of September 21, 1999, in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Lon E. Lafferty, County Judge Executive

Honorable Darriel Young, Martin County Sheriff

Members of the Martin County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendation, included herein, which discusses the following area of noncompliance.

- The Sheriff Should Have Required Depository Institutions To Pledge Additional Securities of \$1,246,002 As Collateral And Entered Into A Written Agreement To Protect Deposits
- The Sheriff Should Remit To The School District The Interest Earned On The 1998 Unmined Coal Taxes
- The County Should Obtain A County Revenue Bond To Adequately Protect The County From Potential Loss

In accordance with Government Auditing Standards, we have also issued a report dated September 26, 2000 on our consideration of the County Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

Stephens & Lawson,

P . S . C .

Stephens & Lawson, P.S.C.

Audit fieldwork completed -  
September 26, 2000

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MARTIN COUNTY  
DARRIEL YOUNG, SHERIFF  
SHERIFF'S SETTLEMENT - 1998 TAXES

September 21, 1999

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 162,132	\$ 176,992	\$ 593,545	\$ 215,706
Tangible Personal Property	139,068	127,117	457,405	492,274
Intangible Personal Property				71,272
Gas Property	59,277	60,308	217,007	78,865
Oil Property	618	628	2,261	822
Undeveloped Oil & Gas Property	632	644	2,312	841
Current Year Franchise Taxes	40,966	39,991	139,226	
Prior Year Franchise Taxes	293	273	973	
Additional Billings	790	737	2,652	7,939
Increased Through Erroneous Assessments				16,927
Penalties	1,782	1,966	6,490	2,645
Adjusted to Sheriff's Receipt	<u>8</u>	<u>8</u>	<u>5</u>	<u>6</u>
Gross Chargeable to Sheriff	<u>\$ 405,566</u>	<u>\$ 408,664</u>	<u>\$ 1,421,876</u>	<u>\$ 887,297</u>
<u>Credits</u>				
Discounts	\$ 5,387	\$ 5,377	\$ 18,841	\$ 14,082
Exonerations	19,370	18,567	65,213	64,026
Delinquents				
Real Estate	21,007	22,171	76,903	27,948
Tangible Personal Property	3,201	2,926	10,527	10,196
Intangible Personal Property				51
Gas Properties	1,011	1,028	3,701	1,345
Oil Properties	20	20	72	26
Undeveloped Gas & Oil Properties	104	106	380	138
Current Year Uncollected Franchise	244	226	814	
Prior Years Uncollected Franchise	<u>239</u>	<u>223</u>	<u>796</u>	
Total Credits	<u>\$ 50,583</u>	<u>\$ 50,644</u>	<u>\$ 177,247</u>	<u>\$ 117,812</u>
Net Tax Yield	\$ 354,983	\$ 358,020	\$ 1,244,629	\$ 769,485
Less: Commissions (A)	<u>15,374</u>	<u>15,216</u>	<u>49,785</u>	<u>32,991</u>
Net Taxes Due	\$ 339,609	\$ 342,804	\$ 1,194,844	\$ 736,494
Taxes Paid	339,434	342,573	1,194,218	736,287
Refunds (Current and Prior Year)	<u>183</u>	<u>238</u>	<u>660</u>	<u>207</u>
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ (8)</u>	<u>\$ (7)</u>	<u>\$ (34)</u>	<u>\$ -</u>

(A) and (B) see Page 4

The accompanying notes are an integral part of the financial statements.

MARTIN COUNTY  
DARRIEL YOUNG, SHERIFF  
SHERIFF'S SETTLEMENT - 1998 TAXES  
September 21, 1999  
(continued)

(A) Commissions:

10% on \$	10,000
4.25% on \$	1,472,488
4% on \$	1,244,629

(B) Special Taxing Districts:

Library District	\$	(3)
Health District		(3)
Extension District		<u>(1)</u>

(Refunds Due Sheriff)    \$ (7)



MARTIN COUNTY  
DARRIEL YOUNG, SHERIFF  
SHERIFF'S SETTLEMENT - 1998 UNMINED COAL TAXES

September 21, 1999

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 94,327	\$ 95,968	\$ 345,320	\$ 125,496
Additional Billings	1,165	1,185	4,263	1,549
Penalties	<u>37</u>	<u>38</u>	<u>137</u>	<u>50</u>
Gross Chargeable to Sheriff	<u>\$ 95,529</u>	<u>\$ 97,191</u>	<u>\$ 349,720</u>	<u>\$ 127,095</u>
<u>Credits</u>				
Discounts	\$ 1,770	\$ 1,801	\$ 6,480	\$ 2,355
Delinquents	<u>1,971</u>	<u>2,005</u>	<u>7,215</u>	<u>2,622</u>
Total Credits	<u>\$ 3,741</u>	<u>\$ 3,806</u>	<u>\$ 13,695</u>	<u>\$ 4,977</u>
Net Tax Yield	\$ 91,788	\$ 93,385	\$ 336,025	\$ 122,118
Less: Commissions (A)	<u>3,901</u>	<u>3,969</u>	<u>13,441</u>	<u>5,190</u>
Net Taxes Due	\$ 87,887	\$ 89,416	\$ 322,584	\$ 116,928
Taxes Paid	<u>87,887</u>	<u>89,416</u>	<u>322,584</u>	<u>116,928</u>
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(A) Commissions:  
     4.25% on \$ 307,291  
     4% on \$ 336,025

The accompanying notes are an integral part of the financial statements.



MARTIN COUNTY  
DARRIEL YOUNG, SHERIFF  
NOTES TO FINANCIAL STATEMENTS

September 21, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statements have been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NOTE 2 - DEPOSITS

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. As of March 15, 1999 the uncollateralized amount on deposit was \$1,246,002. The pledged securities and FDIC insurance did not equal or exceed the amount on deposit. In addition, the Sheriff did not have a written agreement with the depository institution.

MARTIN COUNTY  
DARRIEL YOUNG, SHERIFF  
NOTES TO FINANCIAL STATEMENTS  
September 21, 1999  
(continued)

NOTE 3 - PROPERTY TAXES

The real and personal property tax assessments were levied as of January 1, 1998. Property taxes were billed to finance governmental services for the year ended June 30, 1999. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 1, 1999 through September 21, 1999.

1998 Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 1998. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 1, 1999 through September 21, 1999.

NOTE 4 - INTEREST INCOME

The Martin County Sheriff earned \$4,545 and \$2,114 as interest income on 1998 property and 1998 unmined coal taxes, respectively. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

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## COMMENTS AND RECOMMENDATIONS



MARTIN COUNTY  
DARRIEL YOUNG, SHERIFF  
COMMENTS AND RECOMMENDATIONS

September 21, 1999

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Have Required Depository Institutions To Pledge Additional Securities Of \$1,246,002 As Collateral And Entered Into A Written Agreement to Protect Deposits

The Sheriff's deposits were not adequately secured by \$1,246,002 as of March 15, 1999. Under provisions of KRS 66.480(1)(d) and KRS 41.240(4), banks are required to provide collateral for interest-bearing and non-interest bearing deposits if either exceeds the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation. The sheriff should require the depository institution to pledge sufficient collateral to secure deposits at all times. We also recommend the Sheriff enter into a written agreement with the depository institution. According to federal law, 12 U.S.C.A. 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Management's Response:*

*None.*

2. The Sheriff Should Remit To The School District The Interest Earned On The 1998 Unmined Coal Taxes

Interest income on 1998 unmined coal taxes was \$2,114, the Sheriff previously remitted to the school district and the fee account interest in the amount of \$483 and \$481, respectively. The remaining interest should be distributed to the school district and fee account in the amounts of \$623 and \$527, respectively.

*Management's Response:*

*None.*

MARTIN COUNTY  
DARRIEL YOUNG, SHERIFF  
COMMENTS AND RECOMMENDATION  
September 21, 1999  
(continued)

3. Sheriff Should Obtain A County Revenue Bond To Adequately Protect The County From Potential Loss

As of the audit date, the Sheriff had not obtained a County Revenue Bond as required by KRS 134.250. The county should annually, before he proceeds to collect the county levy, require the Sheriff to obtain a bond sufficient to protect the county from potential loss. We recommend that the Sheriff obtain a County Revenue Bond sufficient to protect the county from potential loss.

*Management's Response:*

*None.*

REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON AN  
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





Honorable Lon E. Lafferty, County Judge/Executive  
Honorable Darriel Young, Martin County Sheriff  
Members of the Martin County Fiscal Court

Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of the Financial  
Statements Performed in Accordance With Government Auditing Standards

We have audited the Martin County Sheriff's Settlement - 1998 Taxes and the Sheriff's Settlement - 1998 Unmined Coal taxes as of September 21, 1999. We have issued our report thereon dated September 26, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Martin County Sheriff's Settlement - 1998 Taxes and the Martin County Sheriff's Settlement - 1998 Unmined Coal Taxes as of September 21, 1999 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determinations of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. the results of our test disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Martin County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Lon E. Lafferty, County Judge/Executive  
Honorable Darriel Young, Martin County Sheriff  
Members of the Martin County Fiscal Court  
(Continued)

This report is intended for the information of management. However, this report, upon release is a matter of public record and its distribution is not limited.

Respectfully submitted,

Stephens & Lawson,

P . S . C .

Stephens & Lawson, P.S.C.

Audit fieldwork completed -  
September 26, 2000



